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ORDER NO. 987

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners: Ruth Y. Goldway, Chairman;
Mark Acton, Vice Chairman;
Nanci E. Langley; and
Robert G. Taub

Notice of Price Adjustment — Docket No. R2012-3

ORDER ON PRICE ADJUSTMENTS FOR MARKET DOMINANT PRODUCTS AND RELATED MAIL CLASSIFICATION CHANGES

Washington, DC 20268-0001

November 22, 2011

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(Issued November 22, 2011)

I. INTRODUCTION AND OVERVIEW

On October 18, 2011, the Postal Service filed its plan to change prices for most market dominant products. This is the fourth time the Commission has reviewed such adjustments under the regulatory approach established in the Postal Accountability and Enhancement Act (PAEA) of 2006. The Postal Service also plans to implement 31 mail classification changes in conjunction with the price adjustments. Most of the classification changes affect Special Services.

The Commission has reviewed the pricing proposals for consistency with the requirements of title 39. Pursuant to 39 CFR 3010.13(j), the Commission finds provisionally that the planned price adjustments are consistent with 39 U.S.C. 3622. More specifically, the Commission finds that the proposed prices do not violate the price cap in 39 U.S.C. 3622(d); are consistent with, or justified by an exception to, the workshare discount limitations in 39 U.S.C. 3622(e); and establish prices that satisfy 39 U.S.C. 3626. Percentage increases by class and total unused price authority are shown in the following table.

Table I-1

Class	**Price Changes %**	**Unused Price Authority %**
First-Class	2.133	-0.530
Periodicals	2.133	-0.562
Standard	2.041	-0.380
Package Services	2.115	-0.533
Special Services	-0.699	2.394

The Postal Service's filing differs from last year's filing in two main ways. One is that the price cap is calculated on a hybrid basis because FY 2011 data were not yet available.[1] The Commission finds that the calculation was done correctly. The other difference is the large number of classification changes. Last year, there were only two. The Commission approves all the classification changes.

The commenters' main concern with this filing is the way in which the Postal Service elects to use its pricing flexibility. This is most apparent in First-Class Mail where some commenters object to the price increases and worksharing discounts for automated letters and in Standard Mail, where some commenters object to pricing in the Flats product and the Carrier Route product. The Postal Service also continues to

[1]In previous market dominant price adjustments, full fiscal year data have been available. Because the instant case was filed in October, 4th quarter data for FY 2011 were not finalized. For this reason, the Postal Service constructed a hybrid year using the 4th quarter of FY 2011 and the first three quarters of FY 2011. *See* USPS-R2012-3/1 at 1.

regard bundle, sack, and pallet passthroughs in Periodicals as opportunities to exercise pricing flexibility, instead of more closely reflecting cost incurrence. There was also a concern that the Postal Service did not comply with certain aspects of the Commission's Annual Compliance Determination (ACD) regarding Standard Flats.

Regarding First-Class, some mailers are concerned that the Postal Service is pricing in a way to encourage less finely sorted mail in order to use excess capacity. Some mailers are also concerned that the price increase for presort mail is above the price cap, while single-piece mail is below the price cap, which will be a disincentive to continue to use First-Class presort. The Commission finds that, while these concerns are reasonable, section 3622 grants sufficient pricing flexibility to permit the Postal Service to employ differential price increases. Further, the proposed price increases comply with the applicable price cap provision of 3622(d) and the workshare discounts comply with the workshare requirements of section 3622(e).

The Commission's rules require the Postal Service to address how its planned price changes are designed to help achieve objectives and factors enumerated in sections 3622(b) and (c). Mailers raise concerns that the planned price changes for various products, *e.g.,* First-Class Mail Presorted Letters, Periodical bundle and container charges, and Standard Mail Carrier Route, fail to adequately consider the objectives and factors set forth in section 3622. In reviewing Postal Service market dominant price adjustments, the Commission's role is to evaluate the lawfulness of Postal Service planned price changes. This entails determining whether the planned changes comport with sections 3622(d), (e), and 3626 as well as applicable policies of title 39. Matters regarding the role of objectives and factors may be further reviewed during the ACD process.

Valpak asserts that the Postal Service has not complied with the Commission's order from the last ACD. It believes that the stay granted to the Postal Service still requires it to file an explanation of how the proposed price increase for Standard Flats will improve cost coverage.

The Commission finds that the Postal Service complied with part of the order by increasing the price for Standard Flats at a rate that exceeds the CPI-U. As to the remainder of the ACD order, the Commission expects the Postal Service to file an explanation of how price increases and cost reductions are being used to reduce the intra-class cross-subsidy and to improve the cost coverage for Standard Flats in the next Annual Compliance Report (ACR).

Starting with this filing, the Postal Service says it intends to implement price adjustments for both market dominant and competitive products at the same time. In this case, the effective date and time for the planned changes is January 22, 2012 at 12:01 a.m. Adjustment Notice at 1 and 19-20. The Postal Service indicates it also plans to use a January implementation date in future years.

As the Commission mentioned in its Section 701 Report,[2] rate filings in October, November, and December mean that available cost data are more than one year old. When the Postal Service files its ACR in late December, the updated cost data could reveal that workshare discounts were set too low or too high or that a product will no longer cover costs under the new rates. In previous years, the Postal Service filed price adjustments in January after it filed its ACR. Filing price adjustments in the second quarter of the fiscal year ensures that the most up-to-date cost data are available when prices, product cost coverages, and workshare discounts are proposed by the Postal Service and reviewed by the Commission.

[2] Section 701 Report, Analysis of the Postal Accountability and Enhancement Act of 2006, September 22, 2011.

II. PROCEDURAL HISTORY

Background. On October 18, 2011, the Postal Service filed a Notice of Market-Dominant Price Adjustment with the Commission in conformance with 39 U.S.C. 3622(d)(1)(C) and Commission rules in 39 CFR Part 3010.[3] The Notice announces the Postal Service's intention to change most domestic and international market dominant prices on January 22, 2012 by amounts which are, on average, within a 2.133 percent statutory price cap for all classes of mail. The price adjustments do not reflect application of unused (banked) price adjustment authority in any class of mail.

The Notice includes three attachments with price and mail classification changes; worksharing discount calculations; and price index change calculations. Supporting workpapers address, for each class, how the planned prices comply with the price cap. First-Class Mail International data and information appear in both public (redacted) and non-public (unredacted) workpapers, pursuant to an application for non-public treatment of the unredacted material.[4] The Postal Service Application was unopposed.

An updated Schedule of Regular and Predictable Price Changes addresses the anticipated implementation date of these adjustments and the Postal Service's intention with respect to the timing of future adjustments.[5] In this case, the length of time between the filing of the Notice (October 18, 2011) and the anticipated implementation date (January 22, 2012) is more than three months, and more than double the 45 days' notice required in the PAEA. The additional time allows mailers time to budget and plan

[3] United States Postal Service Notice of Market-Dominant Price Adjustment, October 18, 2011 (Notice).

[4] Notice of the United States Postal Service of Filing of USPS-R2012-3/NP1, October 18, 2011 (Initial Notice of Non-Public Filing). *See also* Notice of the United States Postal Service of Filing of Revised USPS-R2012-3/NP1 [Errata], November 3, 2012. The Initial Notice of Non-Public Filing includes Attachment 1, Application of the United States Postal Service for Non-Public Treatment of Materials (Postal Service Application). The Commission grants the Postal Service Application.

[5] United States Postal Service Filing of Updated Schedule of Regular and Predictable Price Changes, October 18, 2011.

for any operational changes.[6] Although the timing associated with this filing avoids difficulties that arose last year, when mailers faced a common deadline for filing comments on the price adjustment in Docket No. R2011-2 and in the Annual Compliance Review,[7] the Commission is concerned about the issues that may arise when updated cost data are filed next month in the ACR.

The Commission, in an order issued October 21, 2011, provided public notice of the Postal Service's filing; established Docket No. R2012-3 to consider the planned price adjustments; and appointed a Public Representative.[8] Pursuant to the schedule established in rules 3010.13(a) and (c), the Commission allowed 20 days for public comment. It later granted a 2-day extension in response to a request by a group of mailers.[9]

Supplemental data and information. The Chairman issued two multi-question information requests seeking clarification or further explanation of certain aspects of the Postal Service's filing.[10] The Postal Service filed responses to both requests, including revisions to workpapers.[11] In addition, the Postal Service filed a revision to its planned new price for Detached Address Labels for Standard Mail Saturation Flats.[12]

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[6] *See, for example,* Comments of Pitney Bowes Inc., November 7, 2011 at 6 (Pitney Bowes Comments).

[7] *See* Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. Comments on the United States Postal Service Notice of Market-Dominant Price Adjustment, November 7, 2011, at 27 (Valpak Comments).

[8] Notice and Order on Planned Rate Adjustments and Classification Changes for Market Dominant Postal Products, October 21, 2011 (Order No. 921). *See* 76 FR 67500 (November 1, 2011). *See* 76 FR 65640 and 76 FR 65639, respectively, for related revisions to the Domestic Mail Manual and the International Mail Manual.

[9] *See* Motion of the Saturation Mailers Coalition for a Two-Day Extension of Time to File Comments, November 7, 2011 and Order Granting Extension, November 8, 2011.

[10] Chairman's Information Request No. 1, October 27, 2011 (CHIR No. 1) and Chairman's Information Request No. 2, November 2, 2011 (CHIR No 2).

[11] Response of United States Postal Service to Chairman's Information Request No. 1, November 3, 2011 and Response of United States Postal Service to Chairman's Information Request No. 2, November 9, 2011. *See also* United States Postal Service Notice of Errata to USPS-R2012-3/1 [Errata];

Commenters. The Commission received ten formal comments, including one filed jointly by multiple organizations. A list of commenters appears in an Attachment to this Order.

The Commission acknowledges the comments' important role in supplementing the record and informing the Commission's decision.

United States Postal Service Notice of Errata to USPS-R2012-3/2 [Errata]; United States Postal Service Notice of Errata to USPS-R2012-3/3 [Errata]; United States Postal Service Notice of Errata to USPS-R2012-3/4 [Errata]; United States Postal Service Notice of Errata to USPS-R2012-3/5 [Errata] (all filed November 18, 2011).

[12] United States Postal Service Notice of Revised Price Adjustment for Detached Address Labels, November 15, 2011.

III. CLASS-SPECIFIC SUMMARY

A. First-Class Mail

There are six products assigned to First-Class Mail: Single-Piece Letters/Postcards, Presorted Letters/Postcards, Flats, Parcels, Outbound Single-Piece First-Class Mail International, and Inbound Single-Piece First-Class Mail International. The Postal Service proposes to increase the price for First-Class Mail, as a class, by 2.133 percent. Notice at 5. The Postal Service does not use any of the -0.530 percent banked pricing authority. *Id.* at 3. After applying the 39 CFR 3010.26(c) adjustment, the Postal Service calculates a new unused pricing authority of -0.530 percent. *Id.* at 6.

The Postal Service reports the percentage price changes for individual products within First-Class Mail as follows:

Table III-A-1
First-Class Mail Product Price Changes

First-Class Mail Product	Price Changes %
Single-Piece Letters/Postcards	2.468
Presorted Letters/Postcards	1.580
Flats	1.605
Parcels	10.882
Outbound Single-Piece First-Class Mail International and Inbound Single-Piece First-Class Mail International (combined)	4.678

Id. at 12; Response to CHIR No.1, Question 16.

In this price adjustment, the Postal Service increases the price of the first ounce, single-piece First-Class Mail letter by one cent to 45 cents. *Id.* The Postal Service retains the single-piece additional ounce price of 20 cents. The price of a single-piece postcard is increased from 29 cents to 32 cents. *Id.* The price of the first ounce for a single-piece flat is increased from 88 cents to 90 cents. *Id.* at 16.

The first weight step for letters within the Presorted Letters/Postcards product is increased from one ounce to two ounces. A piece weighing more than two ounces will continue to pay the additional ounce price for the second ounce. *Id.* at 15.

First-Class Mail Parcels receive a 10.8 percent increase. *Id.* at 17. This is the first price adjustment reflecting the transfer of Commercial Plus and Commercial Base parcels to the competitive product list. Only Retail Parcels and Keys and Identification Device price categories remain within the Parcels product as market dominant.

Most other First-Class Mail prices also are adjusted accordingly to achieve the average 2.133 percent price change.

The commenters addressing First-Class Mail compliance with the rate cap, GCA, NPPC, Pitney Bowes, and the Public Representative, state that the Postal Service has complied with the First-Class Mail rate cap requirements of 39 U.S.C. 3622(d)(1).[13] The other commenters addressing First-Class Mail, NAPM, and the joint comments of DMA, MFSA, MMA, NPPC and PSA (Joint Comments), offer no opinion on the Postal Service's compliance with the rate cap.

The Commission finds the Postal Service's planned price adjustments for First-Class Mail comply with the rate cap limitations specified by 39 U.S.C. 3622(d). The Commission finds that the planned prices for individual components of First-Class Mail result in an increase in the price for First-Class Mail, as a class, by 2.133 percent. This does not create any new unused rate authority. The sum of all unused rate adjustment authority for First-Class Mail, from the instant price adjustment and previous price adjustments, remains -0.530 percent.[14]

[13] Comments of the Greeting Card Association, November 7, 2011 at 1 (GCA Comments); Comments of the National Postal Policy Council, November 7, 2011 at 3 (NPPC Comments); Public Representative Comments in Response to United States Postal Service Notice of Market Dominant Price Adjustments, November 8, 2011 at 5 (PR Comments).

[14] *See* PRC-R2012-3-LR1, Compliance Calculations for First-Class Mail.

1. First-Class Mail Worksharing

The First-Class Mail worksharing discussion is separated into three areas: automation letters and cards, automation flats, and Qualified Business Reply Mail (QBRM) discounts. The Commission has reviewed the workshare discounts submitted by the Postal Service. After review, the Commission concludes that the proposed price adjustments are consistent with the worksharing requirements of title 39.

Automation letters and cards worksharing. The Postal Service calculates the following passthroughs of avoided costs for automation letters: AADC, 136.5 percent; 3-digit, 0.0 percent; and 5-digit, 92.3 percent. The Postal Service calculates the following passthroughs of avoided costs for automation cards: Mixed AADC, 92.6 percent; AADC, 100.0 percent; 3-digit, 100.0 percent; and 5-digit, 100.0 percent.[15]

The Postal Service is setting the price for both AADC and 3-digit presorted letters to 37.4 cents. Notice at 13. The presorting requirements for either rate cell are not being changed. The Postal Service states it is preserving both presorting options while it evaluates which presorting option is most appropriate within its network realignment program. *Id.* at 14.

The discount for AADC letters in relation to its Mixed AADC (Bulk Metered Mail) benchmark exceeds avoided costs. *Id.* at 34-35. The Postal Service states it would like to encourage the preparation of AADC/3-digit to drive operational efficiency. The Postal Service asserts it has excess mail processing capacity and can absorb extra workload. *Id.* It contends that giving an added incentive to customers to move from Mixed AADC into AADC/3-digit supports a strategy of increasing efficiency. *Id.* The Postal Service asserts that lowering the discount and bringing the discount closer to 100 percent passthrough of avoided costs would impede operational efficiency. *See* 39 U.S.C. 3622(e)(2)(B); Response to CHIR No. 2, Question 2.

[15] *See* Supplemental Pages for Attachment B (Workshare Discounts) to Notice of Market-Dominant Price Adjustment, Consistent with Order No. 741, November 10, 2011.

The Public Representative argues that the Postal Service's AADC/3-digit strategy seems contrary to section 3622(e)(2)(A)(ii) "in that this type of pricing would seem to perpetuate inefficient operations." PR Comments at 10. The Public Representative further contends that "excess capacity" does not constitute a valid exception to the 100 percent passthrough rule pursuant to section 3622(e)(2)." *Id.*

NAPM does not support the Postal Service's AADC/3-digit strategy. NAPM Comments at 2-3. It believes that reducing the incentive to presort to 5-digit sends the wrong message, and that pricing to absorb excess capacity is not the direction that the Postal Service should be headed. *Id.*

NPPC expresses concern that the passthroughs used to develop presort letter prices depart from the normal practice of setting prices to optimize efficient levels of worksharing. NPPC Comments at 6. It states that pricing to excess capacity is self-defeating and sets a troubling precedent, counter to decades of established ratesetting policy. *Id.* NPPC argues that the Postal Service must reduce capacity rather than structure discounts to absorb that capacity. *Id.*

The joint comments of DMA, MFSA, MMA, NPPC and PSA argue that shifting the focus from price signals designed to drive lowest combined cost to price signals to promote the use of excess capacity is problematic. Joint Comments at 3. They contend that this is a departure from long-standing policy and suggest that the Postal Service's monopoly position is engaging in exclusionary pricing. *Id.* They argue that this will result in too large a network, higher costs to mailers, and accelerated volume declines. *Id.*

Pitney Bowes states that the combination of AADC and 3-digit workshare tiers makes sense given processing practices. Pitney Bowes Comments at 2. However, Pitney Bowes criticizes the justification of "excess capacity" for providing an AADC discount in excess of avoided costs. *Id.* It believes that the solution is to shed the excess capacity from the network. *Id.* Pitney Bowes argues that an AADC letters passthrough in excess of 100 percent has not been justified on the record. *Id.* 2-3. Thus, it contends that the First-Class Mail prices are inconsistent with the workshare limitation of section 3622(e). *Id.* at 2.

NPPC supports the discounts for AADC letters because it encourages Mixed AADC mail to migrate to AADC. NPCC Comments at 8. However, NPPC questions why the Postal Service did not recognize the cost savings of going to 3-digit. NPPC suggests failure to pass through any of the cost savings by going to 3-digit may be inconsistent with section 3622(e). *Id.* at 9.

Pitney Bowes believes that the objectives and factors of the PAEA envision workshare discounts to reflect the full measure of avoided costs. Pitney Bowes Comments at 4. It argues that the Postal Service has not justified the reduction in discounts for 5-digit letters. *Id.* Pitney Bowes asks the Commission to direct the Postal Service to explain the reduction in the 5-digit letters discount and its relation to the discount proposed for AADC letters.[16] *Id.*

NPPC argues that the Postal Service should have seized the opportunity to price presort mail using the more realistic “Metered Mail” benchmark, instead of referencing the obsolete Bulk Metered Mail benchmark. NPPC Comments at 3. This failure, NPPC contends, means that presort letter discounts are uniformly too small, resulting in higher rates. *Id.* at 4. NPPC notes that the decision to pass through less that 100 percent of avoided costs for 5-digit also contributes to higher rates. *Id.* NPPC concludes that excessively high rates and markups for the 5-digit letters will continue to impede efforts to stem the erosion of this most profitable product. *Id.* at 5.

While the Commission concludes that the proposed price adjustments are consistent with the worksharing requirements of title 39, the Commission shares the concern that the Postal Service may not have fully considered the price signals implied

[16] *See* Response to CHIR No. 2, Question 3.

by pricing to excess capacity. Such actions may have an adverse effect on the efficient operations of the Postal Service. Matters related to this pricing issue may be further reviewed during the ACD process.

Automation flats worksharing. The Postal Service calculates the following passthroughs of avoided costs for automation flats: ADC, 227.3 percent; 3-digit, 100.0 percent; and 5-digit, 100.0 percent. The Postal Service cites FY 2008 methodology changes, as explained in Docket No. RM2008-2, Proposal Eight, as the major reason ADC and 3-digit flats passthroughs exceed 100 percent. The Postal Service argues that setting all flats worksharing passthroughs at 100 percent will lead to significantly higher rates. It contends that this should be mitigated to avoid rate shock, 39 U.S.C. 3622(e)(2)(B).

Qualified Business Reply Mail (QBRM) Discounts. The Postal Service reduces the QBRM discounts for letters and cards from 2.3 cents to 2.2 cents. Given the Postal Service's estimates of avoided costs of 1.4 cents per piece for letters and cards, the passthrough of avoided costs is 157.1 percent. Notice at 33. The Postal Service contends that reducing the QBRM discounts further (raising the QBRM prices) is not desirable from a business perspective. Referencing the exceptions for discounts exceeding 100 percent in 39 U.S.C. 3622(e)(2)(A), the Postal Service argues that reducing the discounts may undercut the objective of the incentive for outgoing QBRM pieces, which increases the first weight increment for presort letters from one to two ounces. *Id.* at 34.

The Public Representative does not oppose the proposed QBRM passthrough under the present economic conditions. PR Comments at 9.

In Docket No. R2011-2, the Commission questioned the link the Postal Service attempted to create between QBRM mail and the Reply Rides Free program.[17]

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[17] Order Revising Postal Service Market Dominant Price Adjustments, February 16, 2011 (Order No. 675) at 14.

Similarly, the Commission questions the link the Postal Service attempts to create between QBRM mail and the increase of the first weight step of presort mail from one to two ounces.

In Docket No. R2011-2, the Commission also questioned whether the models used by the Postal Service accurately determine QBRM cost avoidances. *See also, e.g.,* Opinion and Recommended Decision, Docket No. R2006-1, February 26, 2007, at 164-167. Without an accurate methodology to determine cost avoidances, the Commission reiterates its finding in Docket No. R2011-2 that the appropriate approach is to first address the methodology issue. The Commission again urges the Postal Service to develop a proposal and petition to initiate a rulemaking docket as soon as practicable to improve the methodology for determining QBRM cost avoidances.

2. Classification Changes

The Postal Service plans several classification changes to its First-Class Mail products. For letters within the Presorted Letters/Postcards product, the Postal Service plans to change the first weight increment from one to two ounces. The Postal Service intends to add Package Intercept service as an optional feature for First-Class Mail.[18] It intends to allow Forever postage with stamped cards. Qualifying full service IMb mailings will be exempt from paying mailing fees. Finally, language will be removed for the Mobile Barcode Promotion, which ended August 31, 2011. Notice at 50-51.

The Commission finds the First-Class Mail classification changes reasonable and shall incorporate the substance of these changes into the draft Mail Classification Schedule. If any of the above classification changes impact service performance measurement systems, service standards, service goals, or reporting methodologies,

[18] With respect to the Package Intercept classification changes, the Commission acknowledges the Postal Service's advance notice of this new competitive option for First-Class Mail and Package Services products. The Commission provisionally accepts these minor changes pending consideration of Package Intercept in the upcoming competitive price adjustment filing.

the Postal Service shall notify the Commission of such changes pursuant to 39 CFR 3055.5 and 3055.6, as appropriate.

The Presorted Letters classification change modifying the first weight increment from one to two ounces is the only classification change that received substantive comments. These comments are summarized below.

The Postal Service is increasing the first weight increment for letters within the Presorted Letters/Postcards product from one to two ounces in an attempt to retain First-Class Mail volume. *Id.* at 15. It argues that this "will enhance the value of First Class Mail as a communication vehicle and aid in stemming the rate of diversion to other media." *Id.* at 16.

GCA believes the Postal Service's objective is appropriate and reasonable. However, GCA contends that the same treatment also should apply to the first weight increment of single-piece First-Class Mail. GCA Comments at 3.

NPPC believe the "second-ounce-free adjustment will give mailers a serious incentive to consider keeping more of their customer account mail and other correspondence in the postal system instead of in electronic alternatives." NPPC Comments at 3.

NAPM supports the introduction of the new "blended" rate for the second-ounce of presort letters. NAPM Comments at 1. However, it argues that the benefits of this change would be improved if the Postal Service had not attempted to make up the loss of second-ounce revenue by above average increases on the first-ounce of presort letters. *Id.* NAPM further comments on the unintended burdens that might be placed on mail service providers. The burdens include the identification, processing, verification, and reconciliation of residual second-ounce mail pieces that do not qualify for automation mailing, and thus must pay the additional-ounce price. *Id.* at 2.

The Public Representative notes that the processing and transportation costs for increasing the first weight step should be insignificant. The Public Representative also contends that the same treatment also should apply to the first weight increment of single-piece First-Class Mail. PR Comments at 7-8.

3. Additional Comments

5-digit presorted postcards price. NPPC argues that the 5-digit presorted postcards price adjustment from 20.8 cents to 22.9 cents is unreasonable and unexplained. NPPC Comments at 9-10. NPPC contends that the unexpected 10 percent price increase will have an adverse effect on usage and will accelerate efforts to convert mail to alternative communications. *Id.*

The Commission finds the proposed 5-digit presorted postcards price consistent with the pricing flexibility afforded the Postal Service under title 39.

Single-piece versus presort price increases. GCA, NAPM, and Pitney Bowes comment on single-piece versus presort price increases as they relate to their associated cost coverages.

GCA contends that a pattern of biased increases within a class would not be just or reasonable. GCA Comments at 2. It does not believe this situation exists with this price adjustment. GCA further recognizes the limitations imposed on establishing single-piece prices by the whole-cent constraint and the relatively modest level of inflation governing this price adjustment.

NAPM contends that the proposed price adjustment places a disproportionate burden on presort letters. *Id.* at 2. It argues that presort letters are more profitable and price sensitive than single-piece letters, and that the Postal Service cannot hope to reverse or slow mail volume declines with successive above average price increases on its most profitable product. *Id.*

Pitney Bowes notes that the unit contribution from the Presorted Letters/Postcards product (23.7 cents) is more than five cents greater than the unit contribution from the Single-Piece Letters/Postcards product (18.5 cents). Pitney Bowes Comments at 4-5. Pitney Bowes contends that providing disproportionately higher price increases for the more finely sorted product are inconsistent with the factors and objectives of the PAEA. *Id.* at 6. It argues that the Postal Service should be using its pricing flexibility to retain its most profitable, most finely presorted products. *Id.* at 5.

The Commission finds the policy choices for the relative contribution of single-piece versus presort First-Class Mail consistent with the pricing flexibility afforded the Postal Service under title 39.

Timing of rate adjustment. Pitney Bowes notes that the Postal Service is affording more advance notice of price adjustments than required by law (96 days versus 45 days). It believes that the additional time "will help the mailing community prepare for and implement the proposed price changes in an orderly fashion." Pitney Bowes Comments at 6.

The Commission is confident that the Postal Service will continue to schedule implementation dates for rate changes with attention to the convenience of its customers.

4. International First-Class Mail

The Postal Service calculates a 4.678 percent price increase for the combined Outbound Single-Piece First-Class Mail International and Inbound Single-Piece First-Class Mail International products.[19] The calculated price increase for Outbound Single-

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[19] United States Postal Service Notice of Errata to USPS-R2012-3/1, November 8, 2011; Library Reference USPS-R2012-3/1, Excel File CAPCALC-FCM-R2012 Revised.xls, worksheet tab Percent Change Summary. This revised price increase, which is slightly less than the combined price increase originally calculated by the Postal Service, was caused by a change in the calculation of the price

Piece First-Class Mail International is 4.853 percent. This percentage change in price is calculated using outbound volumes for the hybrid year (Q4, FY 2010, and Q1-3, FY 2011) from the international mail billing determinants. For Inbound Single-Piece First-Class Mail International the calculated price increase is 3.980 percent.[20] The Inbound Single-Piece First-Class Mail International percentage change in price is based upon FY 2010 inbound volume and weight data reported in the International Cost and Revenue Analysis report.[21]

With respect to outbound single-piece letters, flats and small parcels, the calculated price increases are 6.635 percent, 3.696 percent, and 3.974 percent, respectively. The Postal Service states that increasing the price of outbound single-piece letters "significantly above" the First-Class Mail average of 2.133 percent is necessary "to address cost coverage problems for FCMI Letters at the one-ounce weight step." Notice at 17. Outbound international First-Class Mail card prices are calculated to increase by 7.020 percent. The nonmachinable surcharge for Outbound Single-Piece First-Class Mail International letters is unchanged.

There are no classification changes proposed affecting International First-Class Mail.

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increase for Inbound Single-Piece First-Class Mail International. *See* USPS Response to CHIR No. 1, November 3, 2011, Question 16. As a result, the revised price increase has a very small effect on the overall percentage increase in price for First-Class Mail as a whole, but creates no increase in unused pricing authority for the class. Library Reference USPS-R2012-3/1, Excel File CAPCALC-FCM-R2012 Revised.xls, worksheet tab Percent Change Summary. In Library Reference PRC-R2012-3-LR1, Compliance Calculations for First-Class Mail, the Commission presents revised calculations of the percentage change in price for inbound Single-Piece First-Class Mail International.

[20] USPS Response to CHIR No. 1, November 3, 2011, Question 16, which references the Excel file Inbound CAPCALC-FCMI-R2012_CHIR1.xlsm (non-public).

[21] Library Reference USPS-R2012-3/NP1 (non-public), at 4.

B. Standard Mail

1. Introduction

There are six products in the Standard Mail class: Letters; Flats; Parcels; High Density and Saturation Letters; High Density and Saturation Flats and Parcels; and Carrier Route. The Postal Service's initial filing calculates a price adjustment authority for the Standard Mail class of 2.133 percent, and proposes to increase rates for Standard Mail, on average, by 2.124 percent. Notice at 4-5. However, the Postal Service reconsidered and decreased the proposed surcharge for Detached Address Labels from five cents to three cents, which leads to an overall lower increase than originally proposed.[22] The Postal Service does not use any of the -0.472 percent banked pricing authority. Notice at 3. The Postal Service reports the distribution of percentage price changes for products within Standard Mail as follows:

Table III-B-1
Standard Mail Product Price Changes[23]

Product	Price Changes %
Letters	1.867
Flats	2.209
Parcels	2.864
High Density / Saturation Letters	2.298
High Density / Saturation Flats and Parcels	2.121
Carrier Route Letters, Flats and Parcels	2.425
Overall	2.041

[22] United States Postal Service Notice of Revised Price Adjustment for Detached Address Labels, November 15, 2011 (Revised Notice).

[23] Notice at 18, Revised Notice at 1.

The Commission finds the Postal Service's planned price adjustments for Standard Mail comply with the rate cap limitations specified in 39 U.S.C. 3622(d). The Commission finds that the planned prices for individual components of Standard Mail result in an increase in the price for Standard Mail by 2.041 percent. New unused authority created in this proceeding equals the unused portion of the annual limitation of 0.092 percent plus the interim amount of -0.472 percent. The sum of all unused rate adjustment authority for Standard Mail, from the instant price adjustment and previous price adjustments, now equals -0.380 percent.

2. Statutory Preferential Rates

39 U.S.C. 3626(a)(6) requires nonprofit rates to be set in relation to their commercial counterparts regardless of the nonprofits' independent costs. Nonprofit rates are set to yield per-piece revenues that are 60 percent of commercial revenues. No commenter challenges the Postal Service's compliance with this requirement. The Commission finds that the Postal Service's planned nonprofit rates conform with this statutory preference.

Transfer of Commercial Parcels. In Docket No. MC2010-36, the Postal Service sought, and the Commission conditionally approved,[24] the transfer of commercial machinable and irregular parcels to the competitive products list. *Id.* at 19.

The transfer leaves nonprofit parcels in the Market Dominant category, and the Postal Service notes that "nonprofit parcels become a more significant component of the Standard Mail parcels offerings." *Id*. at 20. The transfer results in commercial mail, which has the highest average revenue per piece, leaving the Standard Mail class. This lowers the average revenue per piece for commercial Standard Mail. *Id*. Because

[24] *See* Order No. 689, Order Conditionally Granting Request to Transfer Commercial Standard Mail Parcels to the Competitive Product List, March 2, 2011. The Commission notes that the authorization of transfer to the Competitive Product List is conditioned on the Postal Service adjusting rates so that all of the transferred products recover their attributable costs and make a contribution to institutional cost. Order No. 689 at 19.

nonprofit revenues are set to yield, on a per-piece basis, 60 percent of commercial revenues, this decrease in commercial revenue requires a decrease in the nonprofit revenue per piece. *Id*.

The Postal Service adjusted nonprofit letters, flats and parcels prices to achieve a desired revenue per-piece outcome and to maintain reasonable rates. *Id*. at 21.

3. Worksharing Issues

The Commission is required to ensure that workshare “discounts do not exceed the cost that the Postal Service avoids as a result of workshare activity” unless the discount fits within a specified exception. 39 U.S.C. 3622(e).

Commission rules require the Postal Service to justify any proposed workshare discount that exceeds 100 percent of the avoidable costs by explaining how it meets one or more exceptions under the PAEA. The Postal Service shall also identify and explain discounts that are set substantially below avoided costs, and explain any relationship between discounts that are above and those that are below avoided costs. 39 CFR 3010.14(b)(6).

In its filing, the Postal Service identified ten planned rate discounts within the Standard Mail class that have passthroughs exceeding 100 percent.[25] The following passthroughs exceed 100 percent of avoidable costs:

> Automation Mixed ADC Flats to Automation ADC Flats discounts -500.0 percent of the avoidable cost;

[25] The Postal Service’s initial filing calculated costs for letter processing based on changes to the letter cost model it proposed in RM2011-5. In Order No 741 the Commission accepted the changes, but with modifications. *See* Order No. 741, Order Concerning Analytical Principles for Periodic Reporting (Proposal Nine), filed June 3, 2011. The Postal Service’s initial filing, however, provided the calculations without the modifications required by the Commission in Order No. 741. The Postal Service provided supplemental information concerning its calculation of workshare discounts to reflect the Commission’s approval and modification of costing methodology changes. The supplemental information does not move any of the passthroughs in Standard Mail over 100 percent. *See* Supplemental Pages for Attachment B (Workshare Discounts) to Notice of Market-Dominant Price Adjustment, Consistent with Order No. 741, filed November 10, 2011.

Carrier Route Parcels to High Density Parcels discounts -106.9 percent of the avoidable cost;

Mixed NDC Irregular Nonbarcoded Parcels to Mixed NDC Irregular Barcoded Parcels discounts 164.1 percent of the avoidable cost;

Mixed NDC Machinable Nonbarcoded Parcels to Mixed NDC Machinable Barcoded Parcels discounts 164.1 percent of the avoidable cost;

Mixed NDC Nonbarcoded Marketing Parcels to Mixed NDC Barcoded Marketing Parcels discounts 164.1 percent of the avoidable cost;

Mixed NDC Irregular Parcels to NDC Irregular Parcels discounts 256.3 percent of the avoidable cost;

Mixed NDC Marketing Parcels to NDC Marketing Parcels discounts 175.1 percent of the avoidable cost;

NDC Marketing Parcels to SCF Marketing Parcels discounts 134.3 percent of the avoidable cost;

Nonautomation Mixed AADC Machinable Letters to Nonautomation AADC Machinable Letters has no calculated avoidable cost estimate;

Nonautomation Mixed ADC Flats to Automation Mixed ADC Flats discounts 228.0 percent of the avoidable cost;

The Postal Service's stated statutory justifications for these proposed passthroughs are discussed below.

Automation Mixed ADC flats to automation ADC flats. This passthrough supports the discount for presorting automation flats to the ADC level, eliminating the need for some sorting activities.

The Postal Service retains the current 1.0 cent discount because, it asserts, basing the discount on anomalous, unreliable costs would send the wrong price signal and would lead to more inefficient operations. Notice at 38. It, therefore, justifies the proposed discount on the basis of the exception in section 3622(e)(2)(D). The anomalous cost arises from estimates of avoided cost difference between automation ADC flats and Mixed ADC flats for FY 2010 (negative 0.2 cents). The difference indicates that it is less costly to process mail presorted to the MAADC level rather than the AADC level. Because that outcome is not consistent with actual processing operations, the Postal Service does not believe that this cost information can reasonably be used in setting rates for automation. It contends that setting the rate for ADC flats above the rate for Mixed ADC flats would send an economically inefficient signal to mailers to forgo ADC presorting and instead tender unpresorted automation flats to the Postal Service. *Id*.

Carrier Route Parcels to High Density Parcels. This passthrough supports the discount for a greater level of presort and a higher minimum number mailpieces.

The Postal Service believes that the cost data for these categories are anomalous. It states that the discount is reasonable given the absence of a reliable avoided cost estimate, and justifies it using section 3622(e)(2)(D). *Id*. at 46. The FY 2010 avoided cost between Carrier Route Parcels and High Density Parcels was a negative 13.0 cents per piece, meaning that the cost estimate for High Density Parcels was 13.0 cents higher than the corresponding cost estimate for Carrier Route Parcels. *Id*. at 45. The Postal Service states that this costing anomaly "is a result of the small volumes and low overall unit cost of former ECR parcels that contribute to wide standard errors and highly variable costs estimates...." *Id*. at 46. The Postal Service believes that pricing High Density higher than Carrier Route Parcels would send an economically inefficient signal to mailers that Carrier Route Parcels were less expensive than High Density Parcels to process and deliver. *Id*. at 46.

Mixed NDC irregular nonbarcoded parcels to Mixed NDC irregular barcoded parcels; Mixed NDC machinable nonbarcoded parcels to Mixed NDC machinable barcoded parcels; and Mixed NDC nonbarcoded Marketing Parcels to Mixed NDC barcoded Marketing Parcels. These passthroughs support discounts for having the mailer affix a barcode to mailpieces, eliminating the need for the Postal Service to barcode the pieces.

The Postal Service justifies these three excessive passthroughs under section 3622(e)(2)(D), as needed to send a signal to mailers to develop a fully barcoded parcels mailstream. *Id*. at 43. The Postal Service states that a fully-barcoded mailstream would allow the elimination of keying stations on parcel sorters and increase efficiency overall. *Id*. The Postal Service also anticipates implementing a requirement for all ground parcels to have a barcode, and states that it is inappropriate to reduce the incentive to voluntarily barcode parcel-shaped pieces. *Id*.

Mixed NDC irregular parcels to NDC irregular parcels. This passthrough supports the discount for a greater level of presort for mailpieces.

The Postal Service justifies the excess passthrough under section 3622(e)(2)(D), as needed to ensure long-run operational efficiency in its parcel mail processing system. *Id*. at 40.

The Postal Service notes that the Commission accepted, in the R2011-2 rate adjustment and in the 2010 ACD, the Postal Service's rationale for a greater than 100 percent passthrough in this area. *Id*. The Postal Service's rationale was that a new and improved costing model for parcel-shaped pieces "produced avoided costs that were significantly different from those estimated using the former cost model." *Id*. The Postal Service stated that adjusting the discounts to match the new costs would be needlessly disruptive to parcel mailers, and sudden shifts in mailing patterns may cause disruption to postal operations. *Id*. at 40-41.

In this case, the Postal Service continues the trend of reducing the passthrough to better align with avoidable costs. *Id*. at 41.

Mixed NDC Marketing Parcels to NDC Marketing Parcels; and NDC Marketing Parcels to SCF Marketing Parcels. These passthroughs support discounts for greater level of presorting for mailpieces.

The “Marketing Parcels” category is the successor to the previous NFM category. The Postal Service justifies the excess passthrough under section 3622(e)(2)(D) as needed to ensure operational efficiency due to recent mail classification schedule changes. *Id*. at 43.

The Postal Service has reduced the passthroughs of both of these pairs compared to those in the last planned rate adjustment in R2011-2, but urges caution in more drastic changes at this time because the new Marketing Parcels category “will not be a carbon copy of the NFMs category.” *Id*. at 42. Because the Marketing Parcels category is new, mailer behavior, and therefore postal operations, could be disrupted by large changes to the discount. *Id*.

The Postal Service contends that experience with Marketing Parcels will allow it to ensure the worksharing discounts for the category ensure efficient operations. *Id*. at 43.

Nonautomation Mixed AADC Machinable Letters to Nonautomation AADC Machinable Letters. This passthrough supports a discount for a greater level of presort for mailpieces.

The Postal Service does not have a cost estimate available for this worksharing activity because the letter mail processing cost model combines these two categories. In the 2010 ACD, the Commission directed the Postal Service to disaggregate the cost estimates for these categories. The Postal Service has submitted a proposal to disaggregate MAADC and AADC presort Standard Mail letters.[26]

Nonautomation Mixed ADC Flats to Automation Mixed ADC Flats. This passthrough supports a discount for having the mailer affix a barcode to mailpieces, eliminating the need for the Postal Service to barcode the pieces.

[26] *See* Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Nine – Fifteen), November 1, 2011. Proposal Twelve describes the requested change.

The Postal Service justifies the excess passthrough under section 3622(e)(2)(D), to encourage as many flats to be barcoded as possible to aid in the implementation of the Flats Sequencing System (FSS) program. Notice at 38. The Postal Service anticipates gradually phasing out the excess incentive, but states that deployment of the FSS is "only just completed" and "there continues to be a justification for an extra incentive for prebarcoding…" *Id*. The Postal Service does not propose a further reduction in the discount at this time, but will review the discount at the next general market-dominant price adjustment. *Id*. at 39.

Commission analysis. The Commission approves all of the proposed workshare discounts in Standard Mail. The discounts are consistent with or have been justified by an exception under 39 U.S.C. 3622. *See* 39 CFR 3010.13(j).

4. Commenter Issues

Four commenters addressed issues related to Standard Mail.

Worksharing. The Public Representative notes the continued 3622(e)(2)(D) justification of the excessive discount for prebarcoding flats to ensure the successful implementation of the FSS. PR Comments at 10. The Public Representative notes that it supports the successful implementation of the FSS, but the FSS system should, over time, stand on its own without the need for a discount that exceeds avoidable cost. *Id*. at 11. Overall the Public Representative supports the reduction of workshare discounts closer to avoidable costs as an effort to stabilize the Postal Service's finances. *Id*.

Commission analysis. As previously discussed, the Commission approves all the proposed workshare discounts as consistent with the law or adequately justified. The Commission also supports the reduction, over time, of those discounts with excess passthroughs.

Standard Mail Flats. In the FY 2010 ACD, the Commission directed the Postal Service to increase the cost coverage of the Standard Mail Flats product through a combination of above-average price adjustments (consistent with the price cap) and cost reductions to eliminate the intra-class subsidy of the Standard Mail Flats product by other products in Standard Mail. *See* 2010 ACD at 106.

The Postal Service notes that the direction provided in the 2010 ACD is subject to a pending court appeal, and that the Postal Service continues to be concerned about the financial health and long-term viability of the catalog industry, a major user of the Flats product, and has used its pricing flexibility to keep the increase for Flats moderate. Notice at 18. Nonetheless, the proposed increase for the Flats product is slightly above average. *Id*.

Overall the American Catalog Mailers Association (ACMA) "accepts this proposal as a reasoned response to past concerns, despite questions that still exist."[27] ACMA comments that while previous questions raised the issue of whether the Standard Mail Flats product revenues covered its attributable cost, "little information about the relation of revenues to costs is available." *Id*. at 1-2. ACMA questions whether FY 2010 costs are appropriate because the Postal Service continues to cut workhours, and therefore costs, in the ensuing period. *Id*. at 2. ACMA references its previous comments questioning the validity of the FY 2010 costs, but does not put forward a suggested improved cost model. *Id*. ACMA questions the inclusion of nonprofit flats in the "Standard Mail Flats" product for purposes of evaluating cost coverage. *Id*.

ACMA discusses the underlying economic principles supporting costing methodology, and states that it is "evident that difficulties in costing exist." *Id*. at 3-5. ACMA states that until "anomalous or inconsistent" matters in the costing methodology are addressed "no confidence can be had that the costs being generated are valid, meaningful, and relevant." *Id*. at 5. ACMA contends that the system is not stable, and therefore the costs previously developed are deficient. *Id*. at 6.

[27] Statement of the American Catalog Mailers Association, November 7, 2011, at 3 (ACMA Comments.)

As an example of an anomalous outcome, ACMA discusses carrier delivery costs comparing letters to flats. *Id*. For in-office costs, ACMA observes that the unit casing cost increase for flats over a specified period of time was substantially greater than the growth in letter casing cost, even taking into account a modest increase in the percentage of DPS letters. *Id*. at 7-8. ACMA suggests that excess capacity may be "parading as low productivity," which it contends demonstrates that costs are not 100 percent variable as assumed. *Id*. at 8. For street costs, ACMA discusses the model used in R2005-1 to estimate costs, and points out that while a decrease in letter volume leads to an increase in marginal cost for letters, a decrease in flats volume leads to a decrease in flats marginal costs. *Id*. at 9. ACMA suggests that these unexpected results, among others, raise questions about the cost modeling and suggest excess capacity. *Id*. at 10.

ACMA concludes that because of these anomalies, "it is apparent that no valid revenue or cost is available for Standard [Mail] Flats." *Id*. at 11. ACMA states that the Postal Service's proposal should be accepted, and the Commission should further review the underlying cost attribution. *Id*.

L.L. Bean, Inc. (L.L. Bean) comments that the Postal Service's proposed price adjustment does not move toward cost-recovering rates for the Standard Mail Flats product. L.L. Bean Comments at 1. L.L. Bean states that the Postal Service's proposed 2.209 percent increase for flats will do nothing to close the cost gap. *Id*. at 2. L.L. Bean expresses concern that the prices for Carrier Route, which makes a contribution to institutional costs, are slated for a larger increase than Standard Flats. *Id*.

L.L. Bean contends that the Carrier Route product is used more than the Standard Mail Flats product for catalogs, and raises concerns about the Postal Service's proposed justification of attempting to stabilize the catalog industry with predictably low rates. *Id*. at 3-4. L.L. Bean points out that there is a subsidy of the Standard Mail Flats product by the Carrier Route product. *Id*. at 4. L.L. Bean states that because catalog volume is driven by prospecting, the higher density Carrier Route product is the product used as an “engine of growth” in the catalog industry. *Id*.

L.L. Bean urges the Commission to address the lack of explanation or justification for its Carrier Route rates, which it contends point to continued favoritism of below-cost Standard Mail Flats. *Id*. at 5.

The Public Representative notes the Commission’s directive in the FY 2010 ACD to increase Standard Mail Flats cost coverage, and states that the proposed rates increase Standard Mail Flats prices by slightly above the CPI cap. PR Comments at 11. The Public Representative supports the Postal Service’s attempts to move cost coverage for Standard Mail Flats towards 100 percent. *Id*.

Valpak Direct Marketing Systems, Inc. and Valpak Dealers’ Association, Inc. (together “Valpak”) comments that the Standard Mail Flats increase is an “average” increase, similar to the increase for all other Standard Mail products. Valpak Comments at 3. Valpak asserts that only relative changes in prices are significant, and because there are no relative changes to Standard Mail Flats compared to other products, it will remain deeply underwater. *Id*.

Valpak notes that below average increases for Saturation mailers make sense given the high elasticity of Saturation mailers, but the Postal Service is proposing the opposite in this docket, a low increase for low-elasticity Standard Mail without a break for Saturation mailers. *Id*. at 4.

Valpak explores the Postal Service’s rationale for the moderation of Standard Mail Flats rates, but comes to the conclusion that the rates penalize catalog mailers making a contribution to Postal Service institutional cost while “nurturing those catalog mailers who are causing it to lose money…” *Id*. at 14-20. Valpak notes that the Postal Service has not identified how a particular segment (or individual member) of the catalog industry is in such need of this targeted support. *Id*. at 20-21.

Valpak acknowledges that the Postal Service has authority under the law to exercise pricing flexibility using its business judgment, but states that when a product is underwater, it should not have such discretion. *Id*. at 4-5. The result of the Postal Service's pricing of Standard Mail, Valpak asserts, is the ongoing subsidy of certain catalog mailers at the expense of all other users of the class. *Id*. at 5. Valpak concludes that the Postal Service is pricing Standard Mail Flats against its own financial interest and that practice cannot continue. *Id*. at 22-24.

Valpak contends that the Postal Service's proposed rates violate the Commission's directive in the FY 2010 ACD. *Id*. at 7. Valpak urges the Commission to take immediate action in this docket to bring Standard Mail Flats prices closer to compliance, stating that even a delay in addressing the issue until the ACD proceeding at the end of the calendar year would be more burdensome and less efficient. *Id*. at 8.

Valpak notes that pending the appeal action of the FY 2010 ACD, the Postal Service sought and received a stay from the Commission for providing a schedule of above-average increases for the Standard Mail Flats product. *Id*. at 10. Valpak asserts that the stay does not apply to the specific action of moving Standard Mail Flats closer to compliance. *Id*.

The result, Valpak states, is that the Postal Service may have technically complied with the exact language of the Commission's direction in the FY 2010 ACD, but that the Postal Service has not actually complied with the Commission's order. *Id*. at 12. Valpak supports its position by stating that the Postal Service has not described how the proposed prices will move the Standard Mail Flats cost coverage toward 100 percent. *Id*.

Overall, Valpak requests that the Commission reject the Postal Service's proposed rates, and direct the Postal Service to use most of its pricing authority to increase the cost coverage of the Standard Mail Flats product. *Id*. at 13-14.

Commission analysis. Commenters raise several issues: (1) the price increase for Standard Carrier Route mail, (2) the reliability of the attributable cost for Standard Flats, and (3) the Postal Service's compliance with the Commission's last ACD.

Concerning the first issue, the Postal Service's planned price increases comply with 3622(d). Given the limited amount of time for evaluating market dominant price adjustments, matters regarding the role of the objectives and factors may be reviewed in the ACD process.

Concerning the second issue, cost reliability, the Postal Service's estimated attributable cost for each product is reasonably reliable. The terms "estimate" and "reasonable" apply to postal product costs because they are based on an array of scientific sampling systems so that there is a statistical margin or error associated with the attributable cost for each product.

Scientific sampling systems are necessary because it is impossible to design an accounting system to record the labor cost that is expended in the processing, transporting, and delivery of each mail product. At any moment in time, postal employees can handle single or multiple products with varying volumes or no products at all. No accounting system can record such dynamic information at the product level. The Postal Service's scientific sampling systems estimate the proportion of time that, for example, clerks sort specific mail products on mail processing equipment. Other sampling systems are used for transportation and for delivery. Each of the estimates derived from these systems has a margin of error.

The sampling systems have been subjected to the highest level of scrutiny because each system has been vetted through litigated administrative proceedings which are adversarial in nature and give interested parties the opportunity to criticize or improve the systems or models at issue. For example, the In-office Cost System (IOCS) which supports the distribution of attributable costs to products has been examined in a series of rate proceedings starting in 1971. The IOCS used today has benefitted from that adversarial scrutiny and, as a result of that scrutiny, has been redesigned and modified many times. The vetting continues through ongoing rulemaking proceedings.

It is possible to find anomalous results buried in the details of the costing systems, but those results do not invalidate the use of product attributable cost to evaluate financial performance. On the whole, the costing systems employed by the Postal Service and approved by the Commission produce reasonably reliable product costs for ratemaking purposes. For these reasons, the product costs shown in the Commission's ACD are reasonably reliable and well-suited to assessing revenue cost relationships at the product level. The Commission would encourage ACMA, or any other interested parties, to pursue the development of a more suitable cost method in a rulemaking proceeding. *See* 39 CFR 3050.11.

Concerning the third issue, the Commission granted the Postal Service a stay from part of the relief ordered in the FY 2010 ACD. Specifically, the Commission did not require the Postal Service to file a schedule of future above-average increases for the Standard Mail Flats product, pending the outcome of the pending appeal. However, the Commission did not release the Postal Service from its obligation to propose prices that move the Standard Mail Flats product toward compliance.

In this case, without the benefit of the Postal Service's proposed schedule of rates for Standard Mail Flats and with the appeal of the Commission's 2010 ACD decision, review of these planned rates presents a challenge. The Postal Service technically complied with the Commission's directive to give Standard Mail Flats an above-average increase. The Commission is concerned with the comments illustrating that the Postal Service's planned rates do little to remedy the intra-class subsidy of Standard Mail Flats. The Commission is also concerned with the lack of explanation provided by the Postal Service as directed in the FY 2010 ACD. In the coming Annual Compliance Determination the Commission will examine the Postal Service's explanation as to how Standard Mail Flats are moving toward compliance, and how its pricing reaches that goal.

In summary, the Commission finds that the Postal Service's planned rates for Standard Mail, including the rates for Standard Mail Flats, satisfy applicable statutory requirements. Issues concerning Postal Service pricing of Standard Mail may be reviewed in the ACD process.

C. Periodicals

1. Introduction

Products. The Periodicals class, which includes publications such as magazines and newspapers, consists of two products: Within County and Outside County. Adjustment Notice at 23.

2. Price Adjustments

Postal Service's planned adjustments. The Postal Service plans to increase Within County Periodicals prices by an average 2.054 percent and Outside County Periodicals prices by an average 2.136 percent. The proposed overall average increase for the Periodicals class is 2.133 percent. *Id*. This percentage increase is equal to the Postal Service's current annual limitation authority. The Postal Service does not apply any unused rate authority to the pricing of either product. *Id*. Cumulative unused pricing authority for the Periodicals class following this change is -0.562 percent. *Id*. at 6.

The following table summarizes the proposed average percentage price changes for Periodicals.[28]

[28] Errata filed after the Adjustment Notice was submitted do not affect these percentages. *See* United States Postal Service Notice of Errata to USPS-R2012-3/3 [Errata], November 8, 2011 (Notice of Errata).

Table III-C-1
Summary of
Planned Average Percentage Price Increase for Periodicals

Product	Price Changes %
Outside County	2.136
Within County	2.054
Overall	2.133
Source: Id. at 23.	

Postal Service's position. The Postal Service characterizes the Periodicals class as "challenged" in terms of cost coverage, as it did not cover its attributable costs in FY 2010 (Factor 2, Objective 8). *Id*. The Postal Service says it is cognizant of the special situation of Periodicals in terms of both its value to the public (Factor 8, Factor 11), and its failure to cover costs. *Id*. It says this price change refines price relationships to encourage efficiency and containerization, while limiting the price increases for individual publications. It notes that the actual price paid by a given publication is the combination of many price elements, so it says care has been taken to adjust the individual price elements in a manner that limits the resulting postage increases. *Id*. at 23-24.

Commenters' views. Valpak observes that the Periodicals class has a history of losses, including a loss of $611 million in FY 2010.[29] Valpak Comments at 25. However, it agrees that the planned Periodicals prices are within the price cap and

[29] Valpak primarily uses the Standard Mail class. Its interest in Periodicals pricing is tied to concern over the practical implications of classes that do not cover costs. It states: "… if the magnitude of the Periodicals losses are not addressed by the Commission, it makes it even more imperative that the Postal Service not incur losses on other products—such as Standard Flats, … ." Valpak Comments at 26.

"appear to be technically compliant with 39 U.S.C. 3622(d)." *Id*. at 26. No other commenter specifically addresses the planned adjustments for Periodicals.

Commission analysis. The Postal Service's planned price adjustment of 2.133 percent for the Periodicals class is equal to the current annual limitation authority; therefore, the Commission finds this adjustment in compliance with the annual limitation.

3. Statutory Preferential Rates

Postal Service's position. The PAEA accords the Periodicals class several pricing preferences. The Postal Service says it implements these preferences in the same manner as in Docket No. R2011-2. *Id*. at 29. It notes that the Commission conclusion in that case was that the Postal Service's approach reflected an appropriate interpretation of section 3626. *Id*.

Within County. Section 3626(a)(3) requires that the prices for Within County Periodicals reflect this product's preferred status relative to the prices for regular rate Periodicals. The Postal Service says the price adjustment in this case continues to recognize the preferential status of Within County Periodicals by setting prices below those of regular Outside County Periodicals. *Id*.

Outside County—Nonprofit and Classroom. 39 U.S.C. 3626(a)(4)(A) requires that Nonprofit and Classroom Periodicals receive, as nearly as practicable, a 5 percent discount from regular rate postage, except for advertising pounds. Consistent with past practice, the Postal Service maintains this rate preference by giving Nonprofit and Classroom pieces a 5 percent discount on all components of postage except for advertising pounds and Ride-Along postage. *Id*.

Outside County—Science of Agriculture Periodicals. Section 3626(a)(5) requires that Science of Agriculture Periodicals be given preferential treatment for advertising pounds. The Postal Service says it continues to provide these publications with advertising pound rates for DDU, DSCF, DADC, and Zones 1 & 2 that are 75 percent of the advertising pound rates applicable to regular Outside County Periodicals. *Id*.

Limited Circulation discount. Section 3626(g)(4) provides preferential treatment for the Outside County pieces of a Periodicals publication with fewer than 5,000 Outside County pieces and at least one Within County piece. The Postal Service notes that it implemented a Limited Circulation discount in 2008, which gives these mailers a discount equivalent to the Nonprofit and Classroom discount. It retains that discount in this case. *Id*. at 30.

Commenters' views. No commenter addresses the consistency of the Postal Service's Periodicals pricing plan with statutory preferences.

Commission analysis. Commission review of the Postal Service's filing confirms its consistency with statutory preferences for mail in the Periodicals class. Comparable categories of Automation and Non-automation Within County flats have rates that are approximately 65 percent less than comparable Outside County flats prices. This satisfies section 3626(a)(3). The proposed Limited Circulation discount is approximately 5 percent, in line with section 3626(g)(4). Nonprofit and Classroom publications receive a 5 percent discount from Regular, Outside County Piece, Bundle, Sack, and Pallet Prices, consistent with 39 U.S.C. 3624(a)(4)(A). Science of Agriculture advertising pound rates are 25 percent less than Regular Periodicals, thereby satisfying section 3626(a)(5). Finally, the discount for editorial pounds is between 17 and 44 percent. This exceeds the minimum 5 percent discount required under section 3626(4)(a)).

4. Worksharing

Exception to statutory requirement on avoided costs. Section 3622(e) generally requires the Commission to ensure that worksharing discounts do not exceed avoided costs, but allows certain exceptions. One is when the discount is provided in connection with subclasses of mail consisting exclusively of mail matter of educational, cultural, scientific, or informational (ECSI) value. 39 U.S.C. 3622(e)(2)(C). A complementary Commission rule (39 CFR 3010.15(b)(6)) requires the Postal Service to explain discounts set substantially below 100 percent of avoided costs.

Postal Service's position. The Postal Service presents worksharing-related data for Periodicals in Attachment B to the Adjustment Notice.[30] The Outside County table shows discounts or surcharges, cost differentials, and passthroughs for presorting. *Id*. at 47. The Within County table shows the same information for presorting, prebarcoding, and dropshipping. *Id*. Another table shows bundle and container pricing. *Id*.

The Postal Service observes that few Periodicals passthroughs exceed 100 percent, and those that do often apply to low volume categories, such as automation letters. *Id*. It also notes that price swings would occur if these passthroughs were changed. *Id*.

Within County passthroughs. No Within County passthrough exceeds 100 percent; one equals 100 percent.

Postal Service's position. The Postal Service says that it uses the flexibility of the container bundle-piece price structure to limit the extent to which price increases for individual publications differ from the average. It maintains that incentives for efficient preparation are strengthened by reflecting a higher percentage of costs in prices that had minimal impact on those publications that were likely to experience above-average increases. It says this helps further the goal of more efficient containerization, while being mindful of the impact on those publications that cannot easily change preparation. *Id*. at 47-48.

[30] The Commission appreciates the Postal Service's presentation of worksharing-related data for Periodicals.

Commenters' views. Valpak acknowledges that the Commission did not order the Postal Service to take any specific Periodicals pricing action in the last ACD, but notes that the principal pricing action available within the rate cap is to increase passthroughs for bundles, sacks, and pallets (which it says the Commission has urged in past ACDs). Valpak Comments at 26. It asserts that the Postal Service's planned price adjustments appear to add only minimal incentive to encourage efficiency and containerization. *Id*. No other commenter addresses the Postal Service's approach to Periodicals bundle, sack, and pallet pricing.

Commission analysis. The Outside County Periodicals structure, with one exception, develops "bottom-up" estimates of the cost of every combination of presorting and dropshipping bundles, sacks, and pallets.[31] As a result, the relationship of prices and costs for bundles, sacks, and pallets are not based upon conventional worksharing principles, so neither 39 U.S.C. 3622(e)(2)(C) nor Commission rule 3010.14(b)(6) applies. Instead, the Postal Service states — and the Commission agrees — that an effective way of evaluating the economic efficiency of the proposed pricing of these new cost elements is comparing the extent to which bundle, sack, and pallet prices move closer to their respective costs. Commenter Valpak argues that the Postal Service's planned Periodicals prices add "minimal" incentives to encourage mailers to prepare more efficient mailings. The Commission will review these concerns in the ACD process.

The Postal Service's pricing reflects its interest in keeping price increases close to the average increase. This generally results in similar price/cost ratios for bundles, sacks, and pallets in the Outside County product. The Commission continues to believe that aligning prices more closely with costs is preferable; however, because the Periodicals class consists exclusively of mail matter with some ECSI content, the

[31] The exception is piece rates that are related to worksharing-related avoided costs.

Commission finds that the workshare discounts proposed by the Postal Service for the Periodicals class comply with statutory requirements.

5. Classification Change

Postal Service's position. The Postal Service plans one change in the Periodicals price structure. This is the introduction of an Origin Mixed Area Distribution Center (ADC) pallets price cell. *Id*. The Postal Service says this will allow mailers who enter mail at an origin facility to be more efficient by using origin-entered mixed ADC pallets. It believes this addition will encourage, where feasible, the use of pallets rather than sacks. *Id*. at 23-24.

For purposes of price cap calculations, the Postal Service assumes no migration to the new Mixed Area Distribution Center (MADC) pallet price. It recognizes that pricing relationships can move mail volumes to more (or less) efficient preparation, but says no data are available at this point to quantify the impact of the new offering. It also says that net revenue leakage would have lowered the overall percentage change, so the assumption there will be no migration is a conservative approach with respect to not exceeding the price cap. Adjustment Notice, Workpaper R2012-3/3 (revised), November 8, 2011.

Commenters' views. No commenter addresses the planned classification change.

Commission analysis. The Commission approves the Periodicals classification change. While the assumption of no migration for purposes of cap calculations may be an issue, the Commission acknowledges the lack of historical information to use to develop projected billing determinants. The Commission finds that the addition of this upstream pallet option will not materially impact the price cap calculation.

D. Package Services

1. Introduction

The Package Services class contains five products: (1) Single-Piece Parcel Post; (2) Bound Printed Matter Flats (BPM Flats); (3) Bound Printed Matter Parcels (BPM Parcels); (4) Media Mail/Library Mail; and (5) Inbound Surface Parcel Post (at UPU rates).[32]

2. Price Adjustments

The Postal Service proposes an average price increase for Package Services of 2.115 percent.[33] Based on the available inflation-based price adjustment authority, the instant proceeding creates new unused rate authority of 0.018 percent.[34] Summing the new unused rate adjustment authority with the existing rate adjustment authority produces a total unused rate adjustment authority of -0.533 percent.[35]

Table III-D-1 displays the average price increase given to each product, as well as each product's FY 2010 cost coverage. The Postal Service explains that Package Services pricing strategy focuses on increasing the prices of the lowest-performing products while remaining within the overall class price cap. *Id.* at 24-25. As such, the Postal Service proposes above class average increases for Single-Piece Parcel Post and Media Mail/Library Mail, which had FY 2010 cost coverages of 82.2 percent and 80.5 percent, respectively.

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[32] The prices for Inbound Surface Parcel Post are determined by the Universal Postal Union (UPU), not the Postal Service. Notice at 24, n. 11.

[33] *See* United States Postal Service Notice of Errata to USPS-R2012-3/4 (November 8, 2011), which shows a revised average price increase of 2.115 percent.

[34] The Postal Service chose not to use any unused rate authority in this filing.

[35] 0.018 percent in new unused authority from Docket No. R2012-3 plus -0.551 percent in existing unused authority.

Table III-D-1
Package Services Price Adjustment

Package Services Product	Price Change %	FY 2010 Cost Coverage %
Single-Piece Parcel Post	2.472	82.2
BPM Flats	0.504	147.9
BPM Parcels	1.812	92.4
Media Mail/Library Mail	2.581	80.5
Inbound Surface Parcel Post (at UPU rates)	1.958	148.6
Source: Library Reference USPS-R2012-3/4, Revised November 8, 2011 and FY 2010 ACD at 117.		

Comments. No commenter opposes the planned price increases for Package Services.

Commission analysis. The Commission finds that the price adjustments for Package Services are consistent with 39 U.S.C. 3622(d).

3. Statutory Preferential Rates

39 U.S.C 3626(a)(7) requires that Library Mail prices be set as nearly as practicable at 95 percent of Media Mail prices. The Postal Service explains that it satisfies this requirement by setting each Library Mail price element equal to 95 percent of its corresponding Media Mail price element. Notice at 30.

Commission analysis. The Commission finds that the prices for Media Mail and Library Mail comply with section 3626(a)(7).

4. Worksharing

39 U.S.C. 3622(e) requires the Commission to ensure workshare discounts do not exceed estimated avoided costs. To determine if workshare discounts comply with

section 3622(e), the Commission and the Postal Service analyze the passthroughs (discounts divided by cost avoidances) for each discount.

Three Package Services products offer workshare discounts: Media Mail/Library Mail, BPM Flats, and BPM Parcels.

Media Mail/Library Mail. There are six discounts offered for Media Mail/Library Mail. Only two, the 5-digit presort discounts for Media Mail and Library Mail, exceed avoidable costs. *Id*. at 48. The Postal Service justifies these passthroughs under 3622(e)(2)(C), stating that both Media Mail and Library Mail consist of content having Educational, Cultural, Scientific, and Informational (ECSI) value. *Id.* The Postal Service notes that the price increases in the instant proceeding lowers the passthroughs from the levels reported in the FY 2010 ACR.[36]

BPM Flats and BPM Parcels. There are 15 discounts offered for BPM Flats and 12 discounts for BPM Parcels. All workshare discounts for both products are equal to or less than their avoided costs. *Id*. at 49.

Commission analysis. The Commission acknowledges that Media Mail and Library Mail consist of content with ECSI value, and finds that the workshare discounts for the Package Services class are consistent with 39 U.S.C. 3622(e).

5. Classification Changes

The Postal Service proposes two classification changes for the Package Services class. No commenters oppose the classification changes.

Pre-barcoding discounts. The Postal Service proposes to eliminate pre-barcoding discounts for Media Mail/Library Mail and BPM Parcels. Notice at 25, 49, and 51. The Postal Service suggests that pre-barcoding discounts are no longer necessary

[36] The proposed prices also reduce the passthroughs from the levels in the most recent price adjustment, Docket No. R2011-2, which the Commission approved on February 16, 2011.

since parcels will be required to contain an Intelligent Mail package barcode (IMpb) soon.[37]

Package Intercept. The Postal Service's MCS language includes a new operational feature, Package Intercept service, available for First-Class Mail and Package Services.[38] The Postal Service explains that it is including Package Intercept in this filing in advance of its competitive price change filing that will officially add the service to the product list. The attached MCS language suggests that Package Intercept will be added as a service under the Competitive Ancillary Services product.[39] Once added, Package Intercept service will allow customers to re-route or intercept sent packages before they are delivered.

Commission analysis. The Commission approves the proposed classification change related to the pre-barcoding discount. Given the explanation for eliminating the pre-barcoding discount, the Commission agrees.

With respect to the Package Intercept classification changes, the Commission provisionally approves the changes pending consideration of Package Intercept in the upcoming competitive price adjustment filing.

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[37] *See* Federal Register, Volume 76, Issue 187, which provides further information on the Postal Service's IMpb program. The Federal Register notice explains that in January 2012, the Postal Service will initially implement its IMpb program by requiring a unique tracking barcode on all presort and dropship parcels (excluding Standard Mail parcels). The notice further states that in January 2013, the IMpb requirement will be mandatory and failure to comply will result in a penalty.

[38] *See* Notice at 25 and 50. *See also* Response to CHIR No. 2, question 4, which indicates that the Notice erroneously states that Package Intercept is available for Standard Mail parcels.

[39] *See* Notice, Attachment A at 51, 55, 58, and 62.

E. Special Services

1. Introduction

The Special Services class includes 12 products: (1) Ancillary Services;[40] (2) Address Management Services;[41] (3) Caller Service/Reverse Numbers; (4) Change-of-Address Credit Card Authentication Service; (5) Confirm Service; (6) Customized Postage; (7) International Ancillary Services;[42] (8) International Reply Coupon Service; (9) International Business Reply Mail Service; (10) Money Orders; (11) Post Office Box Service; and (12) Stamp Fulfillment Services.

2. Price Increases

For the Special Services class, the Postal Service proposes an average price decrease of 0.699 percent.[43] The primary reason for the decrease is the elimination of Confirm service and the removal of charges for electronic Delivery Confirmation for First-Class Mail Parcels and Package Services. At the time of filing, the Postal Service had 2.133 percent in inflation-based price adjustment authority.[44] Thus, for Special

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[40] Domestic Ancillary Services include 22 services: (1) Address Correction Service; (2) Applications and Mailing Permits; (3) Business Reply Mail; (4) Bulk Parcel Return Service; (5) Certified Mail; (6) Certificate of Mailing; (7) Collect on Delivery; (8) Delivery Confirmation; (9) Insurance; (10) Merchandise Return Service; (11) Parcel Airlift; (12) Registered Mail; (13) Return Receipt; (14) Return Receipt for Merchandise; (15) Restricted Delivery; (16) Shipper-Paid Forwarding; (17) Signature Confirmation; (18) Special Handling; (19) Stamped Envelopes; (20) Stamped Cards; (21) Premium Stamped Stationery; and (22) Premium Stamped Cards.

[41] The Address Management Services product contains 34 services that ensure address elements and address lists are correct and up-to-date. Notice, Attachment A at 102 through 108.

[42] The International Ancillary Services product contains the following four products: (1) International Certificate of Mailing; (2) International Registered Mail; (3) International Return Receipt; and (4) International Restricted Delivery.

[43] This is a revised figure pursuant to Postal Service responses to Chairman Information Requests. The Postal Service's errata to USPS-2012-3/5, November 8, 2011, did not incorporate: (1) the correction to Bulk Parcel Return Service identified in CHIR No. 1, question 9; (2) the ACY licensing fee and the "One Time Only" fee for the Address Management Service (AMS) –"City State;" and, (3) the ACY licensing fee for the AMS – "Delivery Statistics."

[44] For the instant proceeding, the Postal Service chose not to use any unused rate authority.

Services, the new unused rate adjustment authority from this proceeding is 2.832 percent. Therefore, the total unused rate authority equals 2.394 percent (0.052 percent from Docket No. R2008-1; 0.085 percent from Docket No. R2009-2; -0.577 percent by application of 39 CFR 3010.26 in Docket No. R2011; 0.002 percent from Docket No. R2011-2; and 2.832 percent from Docket No. R2012-3).

Table III-E-1 displays the average price increase proposed for each product.

Table III-E-1
Special Services Price Adjustment

Special Services Product	Price Changes %
Ancillary Services	-1.70
Address Management Services	2.32
Caller Service/ Reserve Number	1.01
Change-of-Address Credit Card Authentication	0.00
Confirm	-100.00
Customized Postage	0.00
Money Orders	4.02
Other Services	2.27
PO Boxes	2.38
Stamp Fulfillment Services	42.12
International Ancillary Services	2.21
International Business Replay Mail	3.46
International Reply Coupon Service	4.76
Source: USPS-R2012-3/5; responses to CHIR No. 1, question 9; CHIR No. 2, question 6; and the USPS errata to USPS-R2012-3/5 filed November 8, 2011.	

Table III-E-1 shows that the Postal Service proposes a 100.0 percent rate decrease for Confirm service due to the elimination of all Confirm service tiers (Bronze, Silver, Gold and Platinum) as existing subscriptions expire. Confirm service allows mailers to identify and receive near real-time mail processing data for both outgoing and incoming First-Class Mail, Periodicals, and Standard Mail letters and flats. As mailpieces with a Confirm barcode are processed on Postal Service sorting equipment, records are created containing Confirm barcode digits. These records are electronically forwarded or available on the Postal Service website for Confirm subscribers.[45] The Postal Service's next generation of barcode technology used to sort and track letters and flats and provide the tracking information to mail owners is the Intelligent Mail barcode (IMb).[46] Confirm service is no longer needed given the extensive adoption of IMb by mailers.[47] Table III-E-1 shows a 42.12 percent increase in Stamp Fulfillment Services (25.0 percent fee increase for domestic destination orders up to $50.00 – increasing from $1.00 to $1.25, and a 75.0 percent fee increase for domestic destination orders over $50.00 – increasing from $1.00 to $1.75) and no increases for two products (Change-of-Address Credit Card Authentication and Customized Postage). Table III-E-1 also shows that Ancillary Services has a proposed 1.7 percent price reduction. The primary reason for the decline is due to the proposal to reduce electronic Delivery Confirmation's prices 31.8 percent. The existing electronic Delivery Confirmation price is $0.19; the proposed price is free-of-charge for qualifying mailpieces.[48]

Comments. The Public Representative is the only participant to comment on the proposed price increases for Special Services. The Public Representative commented on Confirm, Delivery Confirmation and Post Office Box service price changes. For Confirm, the Public Representative believes that the Postal Service's worksheet using the latest annual volumes from billing determinants, as proxies for unexpired subscriptions with no new prices, is acceptable. PR Comments at 6. For Delivery Confirmation, the Public Representative claims that the Postal Service failed to remove volumes associated with the Competitive Product List, thereby creating unused banked authority for a product moving to the Competitive category. She states that this is not

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[45] https://mailtracking.usps.com/mtr/resources/confirm/faqs/barcodesFAQ.jsp?printer Friendly=true.

[46] https://ribbs.usps.gov/index.cfm?page=intellmailmailpieces

[47] Notice at 27.

[48] Qualifying mailpieces are electronic Delivery Confirmation versus purchasing it at a retail window. *Id.* at 78.

only inconsistent with the Postal Service's deletion of volumes for Standard Mail non-flat machinables when they were moved to the Competitive category, but also violates Rule 3010.23(d) requiring adjustments to billing determinants to account for classification changes. *Id.* at 6-7. The Public Representative also contends that by only increasing the fees for size 1 Post Office Boxes (P.O. Boxes), as was done in Docket No. R2011-2, the increase creates an undue burden on urban customers who already pay the highest prices. *Id.* at 7.

Commission analysis. The Commission finds that the planned rates for Special Services are consistent with 39 U.S.C. 3622(d). With respect to the Public Representative comments regarding Delivery Confirmation, the Postal Service correctly calculated the price increase for Delivery Confirmation. In that regard, the transactions (whether incurred by a market dominant or a competitive product) are reported with the Delivery Confirmation billing determinants and subsequently, used to calculate the overall price increase for the service. In addition, the Commission is not persuaded that the price for size 1 P.O. Boxes is unduly burdensome. Contrary to the Public Representative's argument regarding size 1 P.O. Boxes being located in urban areas, size 1 P.O. Boxes are located in both rural and urban areas and represent 67.4 percent of all P.O. Box customers. The Commission notes that the proposed price increases range between one to two dollars. Notice at 27.

3. Classification Changes

The Postal Service proposes nine classification changes for the Special Services class. No commenter opposed the planned classification changes.

Address Management Services. The Postal Service proposes fees to apply, in mid-2012, to the NCOALink MPE service.[49] Fees for end-users are the same whether

[49] Notice, Attachment A, at 106. NCOALink MPE stands for the National Change of Address Service Mail Processing Equipment. The service grants a mailer the right to perform address list updating for its own mail using 18 months of change-of-address data.

or not the end user is a new or existing customer. "Some services allow the purchaser or licensee to make unlimited copies or to make additional copies for a fee." Notice, Attachment A at 102.

Applications and Permits. The Postal Service proposes to add exemptions for qualifying full-service IMb pieces from mailing fees for First-Class Package Service and Parcel Select Lightweight matter entered at a DDU, DSCF or a DNDC location. *Id*. at 70.

Certificate of Mailing. The Postal Service proposes to offer Certificate of Mailing service for First-Class Package Service Commercial base parcels. *Id*. at 75.

Confirm. The Postal Service proposes to set Confirm prices, for all tiers, to zero when existing customers' subscriptions expire. Notice at 27. Tracking services similar to Confirm are a feature for letters and flats, when mailers use an IMb that includes a Mailer Identification Code (MIC). *Id.*

Delivery Confirmation. The Postal Service proposes to offer at no charge Delivery Confirmation services for electronic: First-Class Mail Parcels; First-Class Package Service; Parcel Select, and Priority Mail. In addition, returns with an integrated retail system label are free-of-charge for: First-Class Mail Parcels, Package Services and Priority Mail. Notice, Attachment A at 78.

Return Receipt. The Postal Service proposes to offer Return Receipt Service for Priority Mail (except Critical Mail) with an Adult Signature (PS Form 3811) when the Return Receipt is purchased at the time of mailing. *Id*. at 86.

Stamp Fulfillment Services. The Postal Service proposes to exempt orders consisting solely of stamped cards with a printed return address from paying the Stamp Fulfillment Services fee. *Id.* at 124.

Stamped Envelopes. The Postal Service proposes to offer window envelopes as a premium option, for Stamped Envelopes sold in groups of 50 or 500. Notice at 51.[50]

Stamped Cards. The Postal Service proposes to add an option to purchase Stamped Cards in packages of 10 sheets of four cards per sheet. In addition, large orders of Stamped Cards qualify, at an additional charge, for personalization options to include: printing a return address on Stamped Cards, monogramming, and different fonts and font sizes, styles and/or ink color. In addition, sales of First-Class Stamped Cards with a return address are marked with Forever postage. *Id*. at 50.

P.O. Box Service. The Postal Service proposes to differentiate market dominant P.O. Box Service locations from those at competitive locations. There are 6.1 million market dominant P.O. Boxes at 6,800 locations being transferred to the competitive services category. In addition, the Postal Service proposes to modify the MCS language to offer three-month P.O. Box fees for the seven fee groups and for all five box sizes. Notice, Attachment A at 121.

The Postal Service proposes offering the following Special Services for First-Class Package Service and Parcel Select Lightweight.

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[50] *See also* Notice, Attachment A at page 92.

Table III-E-2

First-Class Package Service	Parcel Select Lightweight
Applications and Mailing Permits, *Id.* at 70	Applications and Mailing Permits, *Id*. at 70
Certificate of Mailing, *Id.* at 75	Certificate of Mailing, *Id*. at 75
Certified Mail, *Id.* at 74	Collect on Delivery. *Id*. at 76
Collect on Delivery. *Id*. at 76	Restricted Delivery, *Id.* at 88
Delivery Confirmation. *Id*. at 78	Return Receipt, *Id*. at 86
Insurance. *Id.* at 79	Signature Confirmation, *Id*. at 90
Merchandise Return Service. *Id*. at 81	Special Handling, *Id.* at 91
Registered Mail, *Id*. at 83	
Restricted Delivery, *Id.* at 88	
Return Receipt, *Id*. at 86	
Signature Confirmation, *Id*. at 90	
Special handling. *Id*. at 91	

Comments. The Public Representative comments that the Postal Service provides a reasonable explanation for its changes to the MCS and that the language proposed supplies adequate descriptions. PR Comments at 11.

Commission analysis. The Commission approves the proposed mail classification changes for Special Services. The Commission finds that the explanation for eliminating the Confirm service when existing agreements expire is persuasive. The proposal to add 3-month fees to the P.O. Box service appears to be a reasoned approach to accommodate customers needing a P.O. Box for a short period of time.

IV. ORDERING PARAGRAPHS

It is ordered:

1. The price adjustments are within the annual limitation on changes in rates set forth in 39 U.S.C. 3622(d) and 39 CFR 3010.11, 3010.22, and 3010.26.

2. The price adjustments properly reflect the statutory preferences set forth in 39 U.S.C. 3626.

3. The workshare discounts either satisfy the requirements of 39 U.S.C. 3622(e) or fall within an enumerated exception to those requirements, and may take effect.

4. As set forth in the body of this Order, the Commission approves the Mail Classification Changes identified in Attachment A to the United States Postal Service Notice of Market-Dominant Price Adjustment, filed October 18, 2011.

5. Except to the extent granted or otherwise disposed of herein, all outstanding requests in Docket No. R2012-3 hereby are denied.

By the Commission.

Shoshana M. Grove
Secretary

List of Commenters Addressing Docket No. R2012-3 Notice of Price Adjustment
in response to Order No. 921
(Comments filed November 7, 2011 unless noted otherwise.)

Commenter	Abbreviation	Caption
American Catalog Mailers Association	ACMA	Statement of the American Catalog Mailers Association (ACMA)
DelMonte, Raymond	DelMonte	Comments (November 2, 2011)
Direct Marketing Association, Inc.	---	Joint Comments*
Greeting Card Association	GCA	Comments of the Greeting Card Association
L.L. Bean, Inc.	LLBean	Comments of L.L. Bean, Inc.
Mailing and Fulfillment Service Association	MFSA	Joint Comments*
Major Mailers Association	---	Joint Comments*
National Association of Presort Mailers	NAPM	Comments of the National Association of Presort Mailers; *see also* Joint Comment*
National Postal Policy Council	NPPC	Comments of the National Postal Policy Council; *see also* Joint Comments*
Parcel Shippers Association	---	Joint Comments*
Pitney Bowes Inc.	Pitney Bowes	Comments of Pitney Bowes Inc.
Public Representative	PR	Public Representative Comments in Response to United States Postal Service Notice of Market Dominant Price Adjustments (November 8, 2011)
Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.	Valpak	Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. Comments on the United States Postal Service Notice of Market-Dominant Price Adjustment

* The full caption reads: Joint Comments of the Direct Marketing Association, Inc. the Mailing and Fulfillment Service Association, the Major Mailers Association, the National Association of Presort Mailers, the National Postal Policy Council, and the Parcel Shippers Association.

Note: David B. Popkin filed a request to intervene as a limited participant. *See* David B. Popkin Notice of Intervention (October 24, 2011).